CIBC

CIBC ASSET MANAGEMENT

PERSPECTIVES

For the 12-month period beginning April 1, 2023

"The key will be to evaluate at what point the risks are sufficiently recognized by the market and, as such, well reflected in prices."

Investors still facing uncertainty

As we see with recent events in the US banking sector, investors are still facing a fair amount of uncertainty. The key will be to evaluate at what point the risks are sufficiently recognized by the market and, as such, well reflected in prices. Our central scenario of a global economic recession is still intact. In fact, recent events may have increased our conviction at the margin. However, the tail risk of a more severe negative outcome cannot be ignored. On the other side, there is still a possible way to achieve the desired soft landing. Given such views, our strategy continues to favour cash and government fixed income over equities. The potential decline in bond yields will be limited by the inflation outlook. However, in a recession, bonds are expected to generate small positive returns. This is a contrast with equities, which will face pressure on earnings and valuation.

Asset class highlights

Equity: assuming the global economy slows down into a recession, corporate profits of the S&P 500 could decline by 15% to 20% on a year-over-year basis; other regions could suffer similar declines, if not bigger for the more cyclical countries; Canada and emerging markets are in a relatively better position going into a global recession because of valuation and could be outperformers.

Fixed income: we believe that global bonds are likely to offer positive returns over the next twelve months; the yield of 10-year treasuries should trade in a range of 3.00% to 4.25%, around a pivot of 3.50%.

Currencies: if economic activity decelerates on a broad basis, the USD may play its role as a global safe haven and remain resilient relative to cyclical currencies; heightened volatility is to be expected in currency land over the forecast horizon.

China: China's post-Covid recovery is underway, and it has been strong so far. Consensus expects consumers unleashing pent-up demand to lead a strong and self-sustained expansion. We are skeptical about this view, particularly for the second half of our forecast horizon. Our outlook averages 5.3% growth for 2023, inflated by a positive base-year effect in 23Q2.

Multi-asset outlook

Asset class	Current March 31, 2023	Expected range: minimum next 12 months	Expected range: maximum next 12 months
Canada 3-month T-Bills rate	4.50%	4.00%	4.75%
Canada 2-year government bond yield	3.73%	3.00%	4.00%
Canada 10-year government bond yield	2.90%	2.75%	3.50%
U.S. 10-year government bond yield	3.47%	3.00%	4.25%
Germany 10-year government bond yield	2.29%	1.75%	3.25%
Japan 10-year government bond yield	0.33%	0.00%	1.00%
Canada 10-year real-return government bond yield	1.21%	0.75%	1.25%
Canada investment-grade corporate spreads	1.66%	1.50%	2.00%
U.S. high-yield corporate spreads	4.49%	4.25%	7.00%
Emerging market sovereign (USD denominated) bond spreads	400	250	500
S&P/TSX price index	20,100	17,000	21,500
S&P 500 price index	4,109	3,400	4,300
Euro Stoxx 50 price index	4,315	3,400	4,400
Japan Topix price index	2,004	1,700	2,100
MSCI Emerging Markets index	59,416	50,000	65,000
U.S. dollar/Canadian dollar	1.3516	1.333	1.434
Euro/U.S. dollar	1.0839	1.000	1.120
U.S. dollar/Japanese yen	132.86	120.00	140.00
U.S. dollar/Offshore Chinese yuan	6.87	6.60	7.25
Gold	1,969	1,800	2,100
Oil price, WTI (West Texas Intermediate)	75.67	55.00	92.00

Source: Thomson Reuters Datastream, CIBC Asset Management Inc. Data as at March 31, 2023.
All prices in home currency unless otherwise specified.

This document is provided for general informational purposes only and does not constitute investment advice nor does it constitute an offer or solicitation to buy or sell any securities referred to. All opinions and estimates expressed in this presentation are as of the date of publication unless otherwise indicated, and are subject to change. CIBC Asset Management Inc. uses multiple investment styles for its various investment platforms. The views expressed in this document are the views of CIBC Asset Management Inc. and are subject to change at any time. CIBC Asset Management Inc. does not undertake any obligation or responsibility to update such opinions.

Certain information that we have provided to you may constitute "forward-looking" statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or achievements to be materially different than the results, performance or achievements expressed or implied in the forward-looking statements.

CIBC Asset Management and the CIBC logo are trademarks of CIBC, used under license.

The material and/or its contents may not be reproduced without the express written consent of CIBC Asset Management Inc.

88 | 04/2023